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# 2018 Indonesian Economic and Financial Sector Outlook:

## Keeping Momentum for Productive Investment to Maintain Economic Growth and Stability

- Higher foreign government debt allows rooms for higher government expenditure, including for infrastructure development, despite possibility of higher interest rates
- Sampoerna University predicts Indonesian economy to continue growing between 5.17% and 5.24% in 2017 assuming 3% to 4% inflation rate and the real interest rate at 10%; Under similar macro environments, Sampoerna University projects 5.3% to 5.4% percent economic growth in 2018
- Capitalizing on productive investment momentum is needed for Indonesia to minimize potential risks of macroeconomic instability, while pushing for quality growth

**JAKARTA, December 7, 2017** – HSBC Indonesia and Putera Sampoerna Foundation (PSF) through the Sampoerna University (SU) is once again organizing the 2018 Indonesia Economic and Financial Sector Outlook (IEFSO) that features the theme of "Keeping Momentum for Productive Investment". Key speakers include Sampoerna University economist and HSBC-PSF Project Manager, Wahyoe Soedarmono; Managing Director & Head of Global Markets of HSBC Indonesia, Ali Setiawan; Senior Executive Researcher of Indonesia Financial Services Authority (Otoritas Jasa Keuangan), Inka B. Yusgiantoro; as well as senior economist, Faisal Basri.

The real gross domestic product (GDP) growth since 2014 has continuously hovered at around 5%. Indonesia's aggregate consumption by private sector and households also do not change substantially since the beginning of 2017. Factors explaining such shortcomings also remain questionable.

"Nonetheless, we predict Indonesia's economic growth to reach 5.17% to 5.24% in 2017, and 5.3% to 5.4% in 2018, assuming inflation at 3% to 4% and the real interest rate to be at 10%", said **Sampoerna University economist & HSBC-PSF Project Manager, Wahyoe Soedarmono**.

Wahyoe also underlined that 2018 will still be shadowed by uncertainties in the global economy, despite prospective economic growth for Indonesia. This would eventually lead to higher current account deficit, thereby causing macroeconomic instability, given that majority of Indonesia's foreign capital inflows are still dominated by short-term portfolio investment rather than foreign direct investment.

Additionally, foreign debt growth also shows an increasing trend. Growth of foreign debt by the government has reached 46% throughout 2015 to 2017, followed by foreign debt by private sector excluding financial institutions (36%) during the similar period. Higher foreign government debt has two crucial implications. On one hand, there will be greater fiscal space, thereby spurring government spending, such as for infrastructure and other productive sectors, which in turn boost private investment and economic growth ("crowding-in" effect). On the other hand, higher foreign government debt may raise the real interest rate, limiting incentives for higher private sector investment ("crowding-out" effect).

Wahyoe underlined the urgency to maintain productive investment momentum to allow the "crowding-in" effect outweighs the "crowding-out" effect due to higher foreign government debt. "There are at least two benefits from higher productive investment. First, it would invigorate aggregate savings, which in turn strengthens macroeconomic stability, as the current account deficit remains manageable. Second, productive investment strengthens the landscape to reach higher equilibrium of economic growth up to its potential, which is at least 5.9% for Indonesia based on Okun's Law."

Meanwhile, **PT Bank HSBC Indonesia Global Markets Head Ali Setiawan** said, "Although credit growth, which has yet to be at a maximum level, shows a sluggish recovery cycle, we can see that economic fundamentals are improving, particularly for exports and expectations of higher government spending on social welfare. Therefore, further supportive policies are needed to realize Indonesia's growth potential. We can also see that Bank Indonesia helped a great deal on the monetary side to spur economic growth."

Ali also said that 2018 is a political year, which essentially means that 2018 will be better than 2017 when taking into account the support from government spending as well as private consumption, which tends to gain speed ahead of elections.

Meanwhile, **PT Bank Indonesia Corporate Sustainability Head and Senior Vice President Nuni Sutyoko** said, "As part of our commitment to become part of sustainable growth, HSBC Indonesia together with PSF and Sampoerna University will continuously focus on strengthening financial education for students, bankers in rural areas, as well as financial and banking. These are among many that motivate us to share economic outlook in this opportunity."

**Financial Services Authority (OJK) Senior Executive Researcher Inka B. Yusgiantoro** explained that through research, lecturers have immense access to participate in formulating solutions to the problems and challenges found in the financial industry. "Advancement in research is the main pillar in developing contributive, inclusive and stable financial sector in Indonesia. Amid the challenges and opportunities in today's global economy, researchers in both higher academic communities and the industry must further deepen their research to offer economic projections that can benefit economic and financial sector planning for Indonesia ahead," Inka said.

The 2018 Indonesia Economic and Financial Outlook (IEFSO) is part of the strategic partnership between HSBC, Putera Sampoerna Foundation, and Sampoerna University aimed at improving financial inclusion and literacy since 2015. In this opportunity, HSBC together with PSF and SU are also bestowing awards to the 10 best scientific publications and 10 best research proposals, in the 2017 HSBC Indonesia Research Award (HIRA). The 2017 HIRA features the theme "Redirecting Banking and Finance for Development", which covers several research topics such as: (1) financial literacy implications; (2) financial inclusion, financial intermediation and financial deepening implications; (3) entrepreneurship and economic growth; (4) risk management and banking policy implications; (5) market structure, intermediation and banking stability.

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